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14/1/22 2021

M.B.A. 3<sup>rd</sup> Semester End-Term Examination

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

(New Regulation and New Syllabus)

Full Marks - 70

Time - Three hours

The figures in the margin indicate full marks for the questions.

Answer question No. 1 and any *four* from the rest.

1. Fill up the blanks:

(10 × 1 = 10)

(i) Stock exchange \_\_\_\_\_.

- (a) Helps in fixing the stock prices
- (b) Ensures safe and fair dealing
- (c) Induces good performance by a company
- (d) All of the above

(ii) The rolling settlement period introduced in the stock exchange \_\_\_\_\_.

- (a) T+5
- (b) T+3
- (c) T+2
- (d) T+1

(iii) The value of a bond depends on \_\_\_\_\_.

- (a) The coupon rate
- (b) Years to maturity
- (c) Expected yield to maturity
- (d) All of the above

(iv) Suppose a preferred stock's annual dividend is of Rs. 3 and the required rate of return is 15 per cent, what is its worth today?

- (a) Rs. 20
- (b) Rs. 25
- (c) Rs. 30
- (d) Rs. 15

[Turn over

- (v) Margin trading means \_\_\_\_\_.
- Trading with borrowed funds
  - Trading with borrowed securities
  - Trading with borrowed funds or securities
  - Trading in only one exchange
- (vi) Duration is the measure of \_\_\_\_\_.
- Time structure of the bond
  - Interest rate risk
  - Time structure and market risk
  - Time structure and the interest rate risk
- (vii) Which of the following is a highly liquid security?
- |                      |                      |
|----------------------|----------------------|
| (a) Mutual Fund Unit | (b) Treasury Bill    |
| (c) Share            | (d) Commercial Paper |
- (viii) Diversification reduces \_\_\_\_\_.
- |                        |                    |
|------------------------|--------------------|
| (a) Interest rate risk | (b) Market risk    |
| (c) Unique risk        | (d) Inflation risk |
- (ix) Technical indicators help to \_\_\_\_\_.
- Find out the present state of the stock market
  - Estimate the growth of stock market
  - Indicate the economic activity
  - Show the direction of the overall market
- (x) The investors by investing in the mutual funds get \_\_\_\_\_.
- |                             |                      |
|-----------------------------|----------------------|
| (a) Professional management | (b) Diversification  |
| (c) Return potential        | (d) All of the above |

2. (a) 'Investment and speculation are somewhat different yet similar in certain aspects.' Explain. (5)
- (b) Discuss the investment alternatives available for investors. (5)
- (c) What are the key features of the National Stock Exchange and the Bombay Stock Exchange? (5)

3. (a) Define risk and distinguish between systematic and unsystematic risks. (5)
- (b) An investor has a choice of three stocks for investment. Their rates of return and probabilities are given below – (10)

Probability	Stock P	Stock Q	Stock R
0.20	-30.0	-20.0	-20.0
0.40	0	0	10.0
0.30	30.0	20.0	40.0
0.10	70.0	40.0	80.0

- (i) Are all these stocks equally attractive? Give reasons.
- (ii) Of those that are attractive, how should the investor choose the one to buy?
4. (a) Distinguish between a puttable and a callable bond. Also state the basic bond valuation formula. (2+1 = 3)
- (b) Alex buys a bond with four years to maturity. The bond has a coupon of 9 percent and is priced at Rs. 100 in the market. (12)
- (i) What is the duration of the bond?
- (ii) What will be the percentage change in the price of the bond, if the interest rate rises by 1 per cent?

5. Ms. Jovi wants to make investment in the stock market but she is unsure how to select the appropriate stocks from the list 6 stocks suggested by her stock broker. The current Treasury Bill rate of return is 7 per cent and the market return variance is 20. The following table gives the details regarding the expected return, beta and residual variance of the individual securities.

Company	$R_i$	$\beta$	$\sigma_{pi}^2$
A	20	0.75	25
B	18	1.3	16
C	16	1.3	9
D	12	0.75	16
E	10	0.6	9
F	15	1.8	36

You are required to advise her on how to select the stocks and build an optimal portfolio. (15)

6. (a) What are the basic premises of technical analysis? What are the differences between technical and fundamental analysis? (4+4 = 8)
- (b) Pioneer Firm is trying to decide two out of four investment funds. From past performance, they were able to calculate the following average returns and standard deviations of these funds. The current risk-free rate of return is 9 per cent.

	Alpha Fund	Beta Fund	Gamma Fund	Kappa Fund
Average Return	17	18	16	14
Standard Deviation	19	20	13	12

You are required to advise Pioneer Firm which two funds are to be selected on the basis of the funds' performances. (7)

7. Write notes on (Any THREE) (3 × 5 = 15)
- (a) Functions of financial market
- (b) Procedure for buying and selling shares in secondary market
- (c) Role of SEBI in Indian Capital Market
- (d) Capital Asset Pricing Model
- (e) Mutual Funds -- Open-ended and Close-ended schemes